



## MEMORANDUM

**DATE:** June 13, 2019

**TO:** USAID/Central Asia Regional Director, Christopher Edwards

**FROM:** USAID OIG Asia Regional Office Acting Audit Director, Michael Hutchinson /s/

**SUBJECT:** Financial Audit of Association for Civil Society Development in the Republic of Kazakhstan Under Multiple USAID Awards, January 1 to December 31, 2017 (5-176-19-041-R)

This memorandum transmits the final audit report on the multiple USAID awards managed by the Association for Civil Society Development in the Republic of Kazakhstan (ARGO). ARGO contracted with the independent certified public accounting firm of Gelman, Rosenberg & Freedman to conduct the audit. The contract required the audit firm to perform the audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.<sup>1</sup>

Gelman, Rosenberg & Freedman stated that it performed its audit in accordance with GAGAS. Gelman, Rosenberg & Freedman is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on ARGO's fund accountability statements; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.<sup>2</sup>

The audit objectives were to (1) express an opinion on whether ARGO's fund accountability statements for the period audited were presented fairly, in all material respects; (2) evaluate ARGO's internal controls; (3) determine whether ARGO complied with agreement terms and applicable laws and regulations; and (4) determine whether ARGO has taken adequate corrective actions on prior audit report recommendations.

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. The mission however, asked the auditors in its contract to follow the Guidelines, and this contracted audit followed that Guidelines.

<sup>2</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

To answer the audit objectives, Gelman, Rosenberg & Freedman examined the fund accountability statements and reviewed documentation that supported the financial transactions reported; performed procedures to evaluate the effectiveness of the design and operation of the internal controls; conducted tests of ARGO's compliance with certain provisions of the agreement, laws and regulations; and reviewed corrective actions taken on prior audit report recommendations. The audit covered project revenues and expenditures of \$1,286,301 and \$1,473,102, respectively, from January 1 to December 31, 2017.<sup>3</sup>

Gelman, Rosenberg & Freedman concluded that the fund accountability statements presented fairly, in all material respects, project revenues and costs incurred under the agreement for the period audited. The audit firm did not identify any questioned costs, significant deficiencies or material weaknesses in internal control. However, it identified one material instance of noncompliance pertaining to not reporting to the Federal Funding Accountability and Transparency Act Subaward Reporting System first-tier subawards exceeding \$25,000, which is required by the agreement.

In addition, Gelman, Rosenberg & Freedman reported that (1) the agreement did not require cost-sharing contribution; (2) the agreement provided for a fixed, not provisional, indirect cost rate; and (3) the recommendations in the prior audit had been addressed. Gelman, Rosenberg & Freedman also identified other internal control matters or nonmaterial instances of noncompliance on pages IV-3 to IV-4 of its "report on findings and recommendations."

During our desk review, we noted some issues that the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated June 13, 2019.

To address the issues identified in the report, we recommend that USAID/Central Asia:

**Recommendation 1.** Verify that the Association for Civil Society Development in the Republic of Kazakhstan corrects the one material instance of noncompliance identified in the report on compliance on page III-1 and detailed on page IV-2 of the report.

We ask that you provide written notification of actions planned or taken to reach a management decision. We appreciate the assistance extended during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").

Attachment: a/s

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<sup>3</sup> The audit covered two projects: (i) Partnership for Innovations Program in the Republics of Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan under Cooperative Agreement AID-176-A-16-00001, for the period from January 1 to December 31, 2017, and (ii) Small Grants Program under Sub-Agreement ARGO-002 with JSI Research and Training Institute, Inc., for the period from January 1 to August 31, 2017 (closeout audit).